**THE BERKSHIRE GAS COMPANY**
**D.T.E. 04-1**

**Second Set of Information Requests of**
**The Department of Telecommunications and Energy**

**Date:** **July 15, 2004**

**Request:**
**DTE 2-1** All parties should comment on the nature and magnitude of any potential commodity-cost implications of a shift to a path, rather than slice-of-system, approach to capacity assignment, as raised in Bay State Gas Company's Reply Comments, at p. 6.

**Response:** Bay State Gas Company's Reply Comments raise important and significant concerns with respect to the commodity-cost implications of a shift to a path, rather than slice-of-the-system, approach to capacity assignment, namely the complexity of identifying and accounting for the economic disparity among paths. As detailed in Bay State's Reply Comments, it is problematical to ascertain the magnitude of change to commodity costs that will result from a shift to a path, rather than a slice-of-the-system approach. Dynamics such as the liquidity of a pipeline or demand levels (which are not known ahead of time) affect the commodity cost of different paths and must be factored in with fixed cost differences to ensure there are no cost inequities. Cost differentials of the magnitude described in the Bay State Reply Comments have also been experienced by Berkshire Gas.

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**Date:** **July 15, 2004**

**Request:**
**DTE 2-2** Please provide a discussion of other potential implications, besides commodity costs addressed in the previous Information Request, of a shift to the path-based capacity-assignment standard.

**Response:** Other potential implications of a shift to the path-based capacity assignment standard are: 1) inconsistency with the Company's load-factor based Cost of Gas Adjustment; and 2) complexity of identifying and quantifying the "cost" of a path.

First, a shift to the path-based methodology would be inconsistent with the Company's load-factor based Cost of Gas Adjustment ("CGA") approved in D.T.E. 01-56. The Company's CGA employs a market-based allocator ("MBA") to assign cost responsibility based upon load factor; that is, the MBA identifies the capacity responsible to serve customers based upon their load profile and ratios are developed and utilized for cost responsibility. For example, high load factor customers whose load is consistent year round are appropriately assigned more base-pipeline capacity than low-load customers with primarily winter usage whose load requires more storage and peaking supplies. The current "slice-of-the-system" assignment of capacity mirrors the cost assignment in the CGA.

Also, a shift to the path-based capacity assignment would bring about cost-inequities since different paths have varying, unique costs; this is a substantial departure from the slice-of-the-system approach where each capacity allocator (i.e. all pipeline capacity, underground storage capacity and peaking capacity) is charged to all marketers at the same cost. In addition, introducing the path-based capacity approach is problematical in that those paths with less expensive or more flexible resources will be selected at the outset, leaving the less attractive capacity paths for remaining sales customers. This is in direct conflict with the Department's policy on cost equity among all customers. Hess and Energy East address the cost inequity issue in their Initial Comments and recommend that any cost differences be credited or surcharged to suppliers as a way to rectify these disparities. However, as cited in the Joint Comments of the LDC's in D.T.E. 98-32, determining these differences is not straightforward: "The issue that arises, however, is that it is difficult to pinpoint and quantify the cost impacts of certain paths and to account accurately for basis differentials in the costs of supply from the wellhead. Thus, some cross-subsidization can occur between customers." Joint Comments, D.T.E. 98-32, p. 51. These same concerns persist today under the path approach. Moreover, the potential for gaming by early entrants may ultimately frustrate the continuing move toward greater competition in the natural gas industry.

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**Request:**
**DTE 2-3** Discuss the question as to (i) whether a shift to the path capacity-assignment standard will ease administrative burdens of contract management and thereby increase competitiveness of marketers and (ii) assuming a fully and workably competitive Massachusetts gas market, whether the impact of path-specific commodity-cost differentials will diminish as transportation volumes increase as a percentage of LDC throughput.

**Response:** i) Depending upon the path, the number of contracts to be released could be reduced. On balance, from the Company's perspective, there is little difference between administering slice-of-the-system or path capacity assignment.

ii) Path specific commodity-cost differentials will likely <u>increase</u> as transportation volumes increase as a percentage of LDC throughput. As discussed in DTE- 2-2 above, the more attractive paths with less expensive or more flexible resources will be chosen early, leaving the less attractive, more expensive paths to those late-migrating and remaining firm sales customers.

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**Request:**
**DTE 2-4** Assuming the Department were to adopt a standard of path-based capacity assignment, please enumerate and discuss what Terms and Conditions changes might be necessary to implement such a shift.

**Response:** There will be numerous substantive changes to the Terms and Conditions ("T&C") that would be warranted if the Department was to adopt a standard of path-based capacity assignment. Specifically, Section 2.0, "Definitions", Section 13.0, "Capacity Assignment" and Appendix A, "Capacity Allocators" would require extensive modifications. For practical purposes, such a change would affect the entire process of determining and assigning capacity and may necessitate the Department's guidance to resolve cost issues.

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**Request:**
**DTE 2-5** What Terms and Conditions changes might need to be implemented in order that a shift to the path capacity-assignment standard would spare firm and transportation customers of any commodity-cost subsidization?

**Response:** It would be necessary to establish a mechanism where suppliers are credited or surcharged based upon specific path costs versus the LDCs average total capacity costs to ensure cost equity among all customers. The complexity associated with determining specific path costs is discussed in the Company's response to Information Request D.T.E. 2-2.

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**Date:** **July 15, 2004**

**Request:**
**DTE 2-6** Each LDC should address whether or not it releases capacity on a monthly basis or some other basis, such as the term of the underlying contract, noting the relevant provisions of the company's Terms and Conditions, and explaining any variance from those provisions.

**Response:** In accordance with Section 13.4 of the Company's Terms and Conditions ("T&C"), each supplier's pool of customers is assessed on a monthly basis (the "Assignment Date") to determine the total amount of Capacity assignable to each supplier on behalf of their customers. Section 13.4.2 of the T&C provides that:

*"The Supplier shall accept an initial increment of 200 MMBtus of Capacity on the first Assignment Date when the sum of the pro-rata shares of Capacity to be assigned to the Supplier pursuant to Section 13.4.1 is equal to or* greater *than 150 MMBtus. The Supplier shall accept additional increments of Capacity in blocks of 200 MMBtus on the following Assignment Dates commensurate with any cumulative increase in the sum of pro-rata shares of Capacity assignable to the Supplier that are equal to or greater than 150 MMBtus."*

Therefore, if it is determined that a supplier should be assigned capacity based upon the criteria prescribed above, the Company releases it until the expiration of the respective capacity contract being assigned, in accordance with Section 13.5.2 of the T&C. If at a subsequent months assignment date it is determined that no incremental blocks of capacity are required to be assigned or recalled, the previous month's assignment of capacity remains in effect, and no new assignment is made. However, if it is determined that additional capacity should be assigned or recalled, the incremental change in capacity is executed.

For example, Supplier A is currently assigned 600 MMBtus of capacity based upon its customer pool. On May's Assignment date the Company determines that Supplier A's customers pool has changed, and its new Capacity responsibility is 749 MMBtus. Because the incremental change in capacity is not greater than 150 MMBtus (749 less 600), there is no new capacity assigned to this supplier. Subsequently, on June's Assignment date the Company determines that Supplier A's customer pool has changed and its new capacity responsibility is 790 MMBtus. Since the incremental change in capacity responsibility is greater than 150 MMBtus (790 less 600), Supplier A will now be assigned an incremental block of 200 MMBtus of capacity. The Company then determines the pro-rata shares of Pipeline Capacity, Underground Storage Withdrawal Capacity and Peaking Capacity of the incremental 200 MMBtu block and releases only this portion, not the total 800 MMBtus, since 600 MMBtus was previously released.